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**31 August 1951**

**CIA No. 49330**  
**Copy No.**

**DAILY DIGEST**

**Office of Current Intelligence**

**CENTRAL INTELLIGENCE AGENCY**

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**\*Army and State Dept reviews  
completed\***

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SECTION 1 (SOVIET)

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2. EASTERN EUROPE. BULGARIA. Improvement in Civil Aviation claimed: Bulgaria has announced significant improvement in civil aviation "thanks to the disinterested assistance of the Soviet Union." A radio broadcast to Europe on 28 August claimed that TABSO (the Bulgarian civil air line) now has a nation-wide internal air passenger and freight service and two airlines connecting with Prague, Bucharest, Budapest and Warsaw. Equipment is allegedly "new and comfortable." TABSO planes, said the broadcast, have since the spring of 1950 been carrying large quantities of fresh vegetables and fruit to Prague and Berlin. (U FBID, 29 Aug 51).

Comment: It is very doubtful whether the claimed improvements in Bulgarian civil aviation have been achieved, even though TABSO may have been merged with Soviet Aeroflot as previously reported (see O/CI Daily Digest, 24 Aug 51). Until recently, TABSO's equipment consisted of a few antiquated planes. Scheduled flights were conducted on an infrequent basis, and wholly within Bulgaria. Foreign air connections with Bulgaria were being handled exclusively by Soviet Aeroflot and Czech Airlines.

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3. TRIESTE. Independents confident of victory in Trieste elections: [redacted] a leader of the Trieste Independence Party is confident that the political parties which advocate an independent Trieste (presumably including Cominformists and Titoists) will receive at least 51 percent of the vote in the Trieste elections.

US Political Adviser Unger comments that the Independents' confidence in victory in the Trieste elections, as well as the evidence of Italian

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fear of their success, is more justified now than previously because of the anti-AMG press campaign in July, and the insistence of the pro-Italians on linked ballot lists and on postponement of the elections.

Nevertheless, Unger estimates that the optimism of the Independents is exaggerated and that the pro-Italians, although their vote will be reduced from that of the 1949 elections, will still obtain a majority. (S Trieste 239, 28 Aug 51).

Comment: The US and British Governments have agreed to postpone the Trieste elections from October until December 1951 upon Italian assurances that they will attempt to negotiate a settlement of the Trieste issue with the Yugoslav Government. If a bilateral settlement is not imminent by December and elections are held then, the pro-Italian strength will probably be even further reduced.

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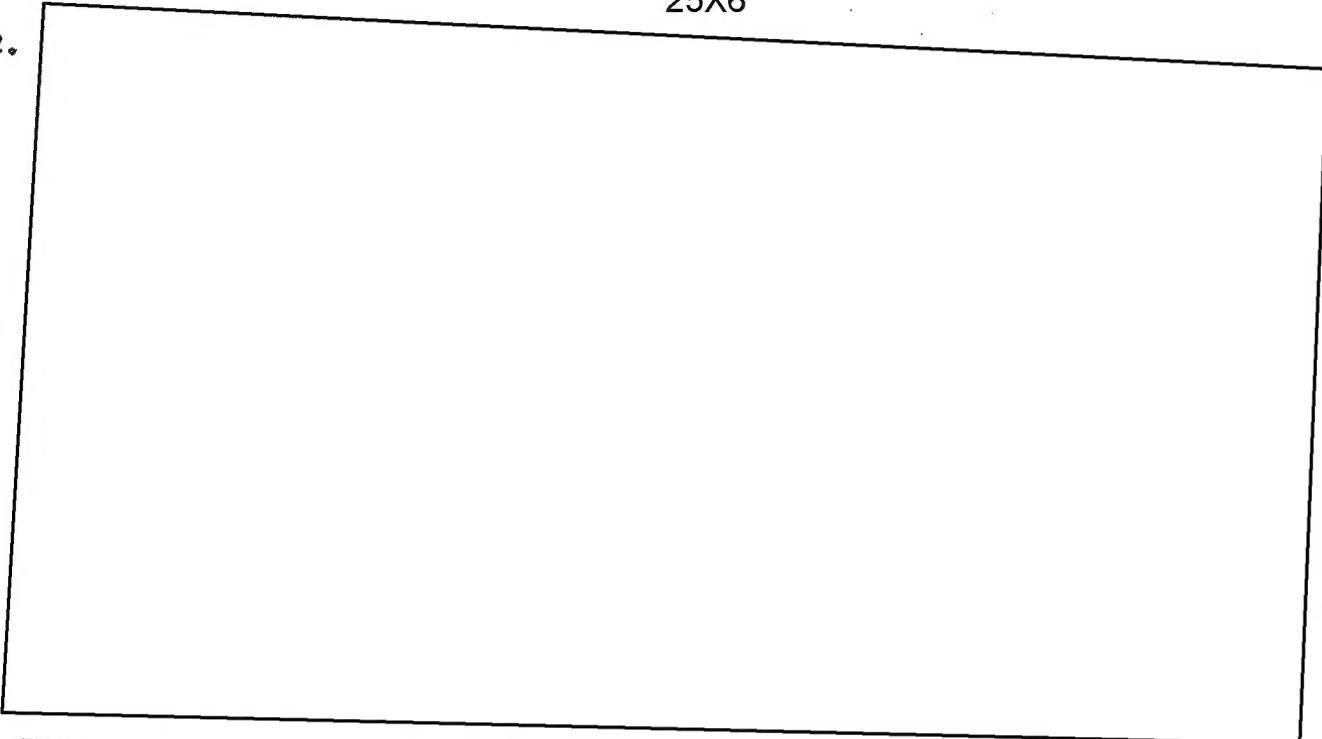
SECTION 2 (EASTERN)

1. GREECE. Greek Marshal Papagos confident of electoral victory: Marshal Papagos, a candidate in the Greek elections of 9 September, has privately informed the US Ambassador that when -- not if -- he forms the new government, he will become both Prime Minister and Minister of National Defense. The latter position would enable him to clear up the "deteriorated military situation." Papagos expressed the fear that if the King did not relinquish the position of Commander-in-Chief of the Armed Forces before the elections, "there would be considerable embarrassment for all concerned." (S Athens 981, 28 Aug 51).

Comment: Recent palace and government efforts to weaken Papagos' candidacy by tampering with the army have reduced its morale and efficiency, and he is convinced that strong measures must be taken if this influence is to be counteracted.

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3. IRAQ. Iraq Petroleum Company agreement still held up: Prime Minister Nuri Said has refused to sign the letters covering the oil agreement unless the company promises a basic minimum annual payment. IPC officials and the British Embassy in Baghdad agree that the time has come to take a stand against further dangers in the agreement. However, the British Charge reports that the Prime Minister holds strong cards because the company has issued an official communique stating that an agreement had been reached. IPC may be forced to capitulate to the Iraqi demands. (S Baghdad 174, 28 Aug 51).

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Comment: There has been some evidence in recent weeks that certain nationalistic elements, inspired by Iranian developments, might delay Iraqi agreement with IPC. The Prime Minister in delaying approval may be recognizing such opposition.

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INDONESIA. Medan Chinese Consul summoned to Djakarta: [redacted] that the Chinese Communist Consul in Medan flew to Djakarta on 20 August. He is believed to have been summoned there by the Chinese Ambassador to report on the security sweep in the Medan area on 11 August and during succeeding days.

Among those arrested during the sweep was Chu Pei Kwan, chairman of both the Overseas Chinese General Association and the China Democratic League in Medan. Two other high ranking Chinese Communists, who are currently en route to China with a Communist-sponsored "observation group" of Indonesian Chinese, will be arrested on their return to Indonesia.

[redacted] after discussing the situation with the consul, the ambassador is expected to go to China to report on the unfavorable turn of events in Indonesia. [redacted]

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Comment: In anticipation of widespread Communist and Communist-inspired disturbances on 17 August and for several days thereafter, the Indonesian Government made a series of arrests throughout Java and Sumatra variously reported as numbering between 800 and 2,000 persons. It is highly probable that the Chinese Embassy is disturbed over developments in Medan, where the security sweep was far more thorough than elsewhere in Indonesia.

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6. US offered strategic commodity from China: A Hong Kong businessman called on the US Consul General to inquire whether the US would be interested in the purchase of 2,000 cases of bristles. The Communists, it was claimed, would release these bristles in exchange for 1,500 bales of cotton yarn (an acutely short item in China) from Hong Kong. At present, the export of cotton yarn from Hong Kong is not permitted.

The Consul General feels that the businessman may be sounding out the US attitude for British officials. The British may hope that the waiving of export restrictions in this instance to serve the strategic requirements of the US will pave the way for relaxing Hong Kong export controls on other items in order to satisfy their own interests. (S Hong Kong 797, 26 Aug 51).

Comment: Hong Kong business men are genuinely concerned over the recent decline in the colony's business activity. Hong Kong's export controls, imposed in response to US pressure, are blamed for the business recession. Business circles in the colony, and also government officials, hope for an early relaxation of restrictions on exports to the Chinese Communists.

7. Chinese Nationalists plan to cut expenditures: The Chinese Nationalist cabinet, in response to the US request for planned control of Nationalist military and civil expenditures, has prepared a new budget providing for a cut in expenditures of 1.3 million US dollars per month. In addition a finance stabilization committee, "tightly controlled by the Kuomintang," will be established. The personnel of the Ministry of Nationalist Defense, which includes the armed forces, will be cut from 640,000 to 580,000. However, since [redacted] 25X1  
[redacted] the personnel of this agency totals only about 400,000 this still 25X1  
will leave 180,000 "paper soldiers."

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The Secret Service and Political Department of the Ministry of National Defense will not be reduced. [redacted] the Political Department's control now extends to the lowest levels in the army. [redacted] 25X1C

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Comment: A special committee headed by the Premier was appointed on 13 August to deal with the reduction of the budget and the control of expenditures. However, it is unlikely that the budget can be balanced, as over-all expenditures now exceed income by more than 2.5 million US dollars per month. Furthermore, the recent establishment of the "Materials Group," to coordinate all secret service agencies, suggests that this phase of the government's activities, already responsible for a large percentage of expenditures, is expanding.

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8. KOREA. Additional reports of the presence of "Soviet Puppet" troops in North Korea: G-2, Far East Command, citing several recent reports of the presence of Caucasian troops in North Korea, states that the multiplicity and consistency of the reports "logically demand attention and some degree of credence." One of these reports stated that by 23 August a "Soviet Puppet Force" had crossed the Yalu River and was on the way to the front line; others mentioned the presence of Soviet and "Caucasian" troops with armor near Kumchon. FECOM comments that the presence of Caucasian troops as far south as Kumchon "appears possible" but that the nationality, size and type of the force are not clear. (S CINCFE Telecon 5100, 30 Aug 51).

Comment: The presence in North Korea of a limited number of non-Oriental troops, chiefly anti-aircraft artillery units and technicians, is considered probable.

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SECTION 3 (WESTERN)

1. GERMANY. East German paramilitary force plans to establish ten mobile hospitals: According to [redacted] the Medical Department of the East German paramilitary force has set up T/E requirements for a self-contained mobile hospital unit and plans to activate ten such units. Each mobile hospital would consist of nine three and one-half ton trucks and eleven trailers with complete hospital equipment. [redacted] 25X1A

Comment: A school for training paramilitary medical personnel has existed since late 1950, and the activation of mobile hospital units would seem a logical step in the development of the East German Bereitschaften. Mobile medical service would normally be required to handle the inevitable casualties occurring during any military field exercises. 25X6

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4. ITALY. De Gasperi admits Communists hold their strength in Italy: Austrian Chancellor Figl reports that Italian Premier De Gasperi recently told him that Communist strength has shown no signs of decreasing in Italy, for which the serious economic situation and large scale unemployment are largely responsible. De Gasperi told Figl in this connection that he would seek additional economic and military assistance from Washington. (S Vienna, 29 Aug 51)

Comment: This is the first such flat recognition of continuing Communist strength reported on the part of De Gasperi, who has hitherto stressed the physical and organizational power of Communism rather than its popular economic appeal. His remarks regarding additional assistance in connection with the Communist problem suggest he will insist that further US aid is essential for an accelerated military program as well as for socio-economic reforms in Italy.

5. Vatican reportedly disapproves of aspects of Japanese Peace Treaty: The Congregation for the Propagation of the Faith (Propaganda Fide), which directs the missionary work of the Catholic Church throughout the world and presumably reflects Vatican policy on major issues, has indicated its disapproval of the Japanese peace treaty in a report from Tokyo. The report in part: "Foreign Catholics (in Tokyo) feel that the treaty as a whole is entirely out of harmony with the principles of social justice and human rights as outlined by Popes Leo XIII, Pius XI, and Pius XII, and are particularly concerned over the mandate to be exercised by the United States over the Ryukyu and other islands south of Japan." The article says American spokesmen have pointed out that Japan is too poor to support an increasing population, and comments that "for America to take land away from Japan would under such circumstances be unworthy of the reputation she has won among the Japanese." Vatican misgivings over the treaty have been adduced as one reason for the presence in the US of Monsignor Montini, Substitute Secretary of State and one of the Pope's closest collaborators. (U NY Times, Rome, 30 Aug 51)

Comment: Propaganda Fide's disapproval of the peace treaty presumably derives partly from pressure by the approximately 150,000 Catholics in Japan, of whom several thousand are located in the northern Ryukyus. The Vatican has shown increasing awareness of the necessity for competing with the Communists for the support of local populations in former colonial or occupied areas in the Far East and Africa.

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8. ECUADOR-PERU. Guarantors of 1942 Rio Protocol meet in Rio: In a statement to the press following the 29 August meeting of representatives of the guarantor powers (US, Argentina, Brazil and Chile), Brazilian Foreign Minister Neves da Fontoura declared they had agreed unanimously that the recent Ecuador-Peru frontier incidents are not of a serious character. He stated that the guarantor powers' representatives considered possible methods for solving the boundary questions which have arisen in connection with demarcation of the Ecuador-Peru boundary according to the terms of the 1942 Rio Protocol. The Brazilian Foreign Minister was charged to consult Peru and Ecuador about the possibilities of a direct agreement between them or of recourse to any other method for solution of their differences. (U Rio 304, 29 Aug 51)

Comment: It is most unlikely that Ecuador and Peru will be able to come to an agreement through direct bilateral negotiations. Argentina's attitude is not known, but the other three guarantor states feel that arbitration offers the best chance for achieving a final solution. They realize it will be most difficult to get Ecuador and Peru to agree on adequate terms of reference and to agree on an arbitrator. A still further obstacle to settlement by arbitration will be the unwillingness of many countries to act as arbitrator. Both the US and Brazil have already indicated that they do not wish to assume such a role.

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SECTION 1 (SOVIET)

1. USSR. Embassy Moscow speculates on Soviet policy at San Francisco: The US Embassy in Moscow suggests that at San Francisco the Soviet Union may attempt to minimize substantive differences between the Kremlin's previously expressed views and the text of the US-UK draft. Thus, the Soviet Government would seek to give the impression that it could sign the treaty if Communist China is brought in on the final discussions concerning treaty differences, and if the treaty contains no provision for future Japanese security arrangements. The USSR would attribute its objection to such a provision to fear that Japanese sovereignty would be limited.

Since this position would parallel that of India, the embassy believes that Moscow may consider it as the best hope of dissuading hesitant countries from signing, while holding out the prospect that the Kremlin is willing to make some sacrifices on the treaty in exchange for an over-all settlement in the Far East.

Noting the lack of progress at the cease-fire conference in Korea, the embassy also suggests the possibility that Soviet delegation members, in private discussions with other delegates, may attempt to bring pressure by threatening a final rupture of Kaesong talks. (S, S/S Moscow 354, 29 Aug 51).

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2. INDONESIA. Vice President urges signing of Japanese treaty: [REDACTED] US Ambassador Cochran that when the decision was made to participate in the San Francisco treaty conference, Vice President Hatta insisted that if a delegation were sent to San Francisco it should be given authority to sign the treaty. [REDACTED] cabinet members, inquiring whether they were running the government or whether party leaders were running them. [REDACTED] 25X1 Hatta's efforts to bring the Masjumi to support the treaty evidently are making progress. (C, S/S Djakarta 345, 30 Aug 51).

Comment: The Indonesian delegation was not given authority to sign the treaty, largely because of pressure from the Indonesian press and various political groups. However, depending upon developments at San Francisco, the cabinet may yet authorize the delegation to sign.

The two most vocal groups in opposition to participation at San Francisco have been the Socialist Party and one faction of Indonesia's largest party -- the Masjumi (Moslem League).

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SECTION 3 (WESTERN)

6. FRANCE. French seek discussion in Washington of Allied "rights" in Germany. French Foreign Office officials recommend discussion, in the forthcoming Washington Foreign Ministers' talks, of only the major issues involved in the substitution of contractual relations for the Occupation regime in Germany. Minor disagreements and detail would be handled by the Allied High Commission.

On some of these main issues the French are strongly opposed to making Allied rights subject to the prospective contractual agreements with Germany. These rights include investigation of scientific and industrial developments, an Allied function which might be placed under the Council of Ambassadors replacing the High Commission; and retention of supreme authority in a few fields, on which the Foreign Office is not yet decided.

Furthermore, the French oppose a limitation of the reserved right of intervention to cases of a "clear and present danger to security," because they fear the Allies would be reluctant to intervene in any crisis until the situation had deteriorated too far. (S, S/S Paris 1308, 29 Aug 51).

Comment: Ever since the Brussels talks of December 1950, the French have insisted that the Allies retain some sovereign powers in Germany beyond the rights enjoyed under the anticipated contractual agreements.

More recently, the French have become somewhat less liberal in their attitude toward restraints on the Germans than they were. This trend is influenced by developments in West Germany, where the press is currently agitating for the complete abolition of all Allied rights in Germany.

The Bonn Government, moreover, while recognizing that the Allies will of necessity retain special rights growing out of the quadripartite arrangements at the end of the war, can be expected strongly to oppose the policing of German scientific and industrial work.

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